

SC1408.AP1. APPENDIX 1 TO SUBCHAPTER 1408
DoD HEALTH BENEFITS PROGRAM FOR NAF EMPLOYEES
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SC1408.AP1. APPENDIX 1 TO SUBCHAPTER 1408

DoD HEALTH BENEFITS PROGRAM FOR NAF EMPLOYEES

- References: (a) Section 349 of Public Law 103-337, "National Defense Authorization Act for Fiscal Year 1995," October 5, 1994
- (b) [DoD Directive 5124.5](#), "Assistant Secretary of Defense for Force Management Policy (ASD(FMP))," October 31, 1994
- (c) [DoD Instruction 1401.1](#), "Personnel Policy for Nonappropriated Fund Instrumentalities (NAFIs)," November 15, 1985
- (d) Public Law 93-406, "Employee Retirement Income Security Act (ERISA)," September 2, 1974, as amended
- (e) through (l), see enclosure 1

SC1408.AP1.1. LEGAL REQUIREMENT FOR UNIFORM PROGRAM

Consistent with Section 349 of the National Defense Authorization Act for Fiscal Year 1995 (reference (a)), one uniform health benefits program shall exist for DoD nonappropriated fund (NAF) employees. This Appendix states the policy for the uniform DoD NAF Health Benefits Program (HBP), referred to as the NAF HBP.

SC1408.AP1.2. RESPONSIBILITIES

SC1408.AP1.2.1. The Assistant Secretary of Defense (Force Management Policy)(ASD(FMP)). Under DoD Directive 5124.5 (reference (b)), the ASD(FMP) has responsibility for all NAF personnel policy matters in the Department of Defense. DoD Instruction 1401.1 (reference (c)) states that the Deputy Assistant Secretary of Defense for Civilian Personnel Policy (DASD(CPP)) has responsibility for maintaining surveillance over NAF policies and programs to ensure consistent implementation and continuous application in a uniform manner throughout the Department of Defense. These programs include the DoD NAF HBP.

SC1408.AP1.2.2. NAF Employee Benefits Committee. This Committee, referred to as the Benefits Committee, is sponsored by the Office of the DASD(CPP) and is composed of representatives from that office and the NAF Components. The Benefits Committee is chaired by a member of the DoD NAF Personnel Policy Office. The Benefits Committee:

SC1408.AP1.2.2.1. Convenes as necessary to review NAF HBP matters and develop policy recommendations to present to the ASD(FMP) through the DASD(CPP). Proposed policy changes shall be coordinated with the DoD NAF Components through normal staff procedures.

SC1408.AP1.2.2.2. Recommends the kinds and levels of benefits to be provided by the NAF HBP, based upon such factors as cost, mainstream private and public sector practice, and health benefits as an element of the total compensation package necessary to recruit and retain productive employees.

SC1408.AP1.2.2.3. Maintains responsibility for managing the NAF HBP, including evaluating how appropriate plan benefits are and how they are used, and monitoring how effectively the Third-Party Administrator (TPA) performs. The TPA's duties and relationship with the Benefits Committee and the six NAF employers are in section SC1408.AP1.7., below.

SC1408.AP1.2.3. Heads of the DoD Components

SC1408.AP1.2.3.1. To ensure DoD-wide uniformity and equity according to reference (a), the Heads of the DoD Components are not authorized to establish health benefits plans, provisions, or policy for NAF employees, except as stated in this Appendix. Heads of the DoD Components or their designees, may request, however, that the Benefits Committee consider proposed changes to the NAF HBP by submitting their requests and supporting rationale in writing to the Chairman of the Benefits Committee.

SC1408.AP1.2.3.2. Heads of the DoD Components, or their designees, are responsible for ensuring that the NAF HBP has been successfully implemented and maintained by the six major NAF employers (Department of the Army, U.S. Marine Corps, Navy Exchange Service Command, Bureau of Naval Personnel, Department of the Air Force, and the Army and Air Force Exchange Service). These tasks include the following:

SC1408.AP1.2.3.2.1. Funding the NAF HBP through timely payment of: Point of Service (POS), Preferred Provider Organization (PPO), Indemnity, and Dental plan claims; TPA fees associated with administering the POS, PPO, Indemnity, and Dental plans; and premiums to applicable Health Maintenance Organizations (HMO). This responsibility includes ensuring proper employee payroll deductions for premiums, building and maintaining employer reserve funds to cover unpredicted increases in the cost of POS, PPO, or Indemnity claims, and funding claims that plan participants present after a TPA claims processing contract terminates.

SC1408.AP1.2.3.2.2. Complying with NAF HBP cost-sharing requirements for POS, PPO, and Indemnity Plan claims and administration fees as described in paragraph SC1408.AP1.9.2., below.

SC1408.AP1.2.3.2.3. Resolving administrative issues concerning the DoD Component's employees.

SC1408.AP1.2.3.2.4. Providing advice and assistance to employees on provisions of the NAF HBP, including distributing communication materials and summary plan descriptions that the TPA provides, distributing premium information, and assisting in proper completion of applicable forms. Communications responsibilities are further explained in paragraph SC1408.AP1.6.6., below.

SC1408.AP1.2.3.2.5. Initially determining enrollment eligibility based on section SC1408.AP1.4., below.

SC1408.AP1.2.3.2.6. Reviewing enrollees' appeals of claims that the TPA denied. All reviews shall follow the appeals procedures agreed upon by the Department of Defense and the TPA. The Head of the DoD Component, or designee, is the final level of employee appeal. The Head of the DoD Component, or designee, is responsible for communicating the appeal decision to the employee, documenting the appeal decision, and providing a copy to the Chairman of the Benefits Committee.

SC1408.AP1.3. HEALTH BENEFITS COVERAGE

SC1408.AP1.3.1. General. The NAF HBP consists of POS, PPO, Indemnity, and HMO plans. A POS, PPO, or an Indemnity plan will be available in each area where eligible employees and retirees are located. To achieve the advantages of managed care, employees in an area where POS plans are available will be subject to POS provisions. Where POS plans cannot be provided, PPO plans will be implemented where possible, and employees in that area will be subject to those provisions. An

Indemnity plan will be used only in geographical areas where a POS or PPO plan is not offered. Where NAF employers offer HMOs, eligible participants may choose either the HMO or the non-HMO plan.

SC1408.AP1.3.2. NAF HBP Rules Pertaining to HMOs. The Benefits Committee and ODASD(CPP) must approve all new HMO contracts or agreements. These contracts or agreements must cover all DoD NAF participants (regardless of DoD NAF employer) who meet the eligibility requirements in section SC1408.AP1.4., below, and who live in the geographical area serviced by the HMO. All new HMO contracts or agreements and any premium changes to existing HMO contracts or agreements must include employer premium shares no higher than 70 percent. Once they are eligible for Medicare, the retiree and his family must change to the applicable non-HMO NAF health plan. NAF retirees who are eligible for Medicare may be offered HMOs only when the Benefits Committee approves an exception.

SC1408.AP1.3.3. Low-Option Indemnity Transitional Plan. A special transitional NAF HBP Low-Option Indemnity plan will be in effect for plan years (calendar years) 2000 and 2001. This plan is available only to employees and retirees who were enrolled in their NAF employer's Low-Option Indemnity plan in 1999 and elected to enroll in the NAF HBP Low-Option plan during the Fall 1999 Open Enrollment Period. NAF HBP Low-Option Indemnity plan participants may not switch to the NAF HBP POS, PPO, High-Option Indemnity plan, or an HMO until the Annual Plan Selection Period, described in paragraph SC1408.AP1.6.2., below. As the transitional Low-Option Indemnity plan will terminate on December 31, 2001, participants must elect to participate in an applicable NAF HBP health benefit plan for plan year 2002 during the biennial Open Enrollment Period in 2001, or they must waive health benefit coverage.

SC1408.AP1.3.4. NAF HBP Dental Plan. A comprehensive dental plan shall be an option to all POS, PPO, and Indemnity plan participants, and to participants in HMOs that do not offer dental benefits through a rider purchased by the NAF employer. NAF active and retired enrollees and employers will share the cost of the NAF HBP dental plan as they do with the medical premium.

SC1408.AP1.3.5. Summary Plan Descriptions (SPDs). The Employee Retirement Income Security Act (ERISA) (reference (d)) does not apply to the NAF HBP. However, the Department of Defense administratively adopts the ERISA requirement that participants in health plans receive a written SPD, a key reference document explaining plan provisions, eligibility requirements, benefit coverage, and how to apply for benefits. Each NAF HBP plan has a separate SPD. While this Appendix outlines NAF HBP policy, it does not contain the detailed information that must be in the SPDs.

SC1408.AP1.3.5.1. The TPA will prepare and forward the non-HMO SPDs to the Benefits Committee for approval. After approval, the SPDs will be issued to the NAF employers' points of contact, and participating employees and retirees.

SC1408.AP1.3.5.2. NAF employers shall ensure that each HMO provides a copy of the plan's certificate of coverage, applicable riders, and schedule of co-payments to the applicable NAF employers and covered participants.

SC1408.AP1.4. ELIGIBILITY REQUIREMENTS

The eligibility requirements specified below and in the SPDs are the only criteria that will establish eligibility. NAF employers may not require active employees to participate in a separate benefit program, such as life or disability insurance, to be eligible for the NAF HBP. Retirees must meet the eligibility requirements in paragraph SC1408.AP1.4.2., below. Employees, retirees, and eligible dependents may not be excluded from enrollment or coverage because of a preexisting condition.

SC1408.AP1.4.1. Active Employees. Regular Full and Part-time civilian employees who are paid on the U.S. dollar payroll, who are scheduled to work at least 20 hours per week, and who are U.S. citizens, or resident aliens living in the United States, the District of Columbia, Puerto Rico, or Guam, are eligible to participate in the NAF HBP.

SC1408.AP1.4.2. Retirees

SC1408.AP1.4.2.1. Eligibility for Post-Retirement Medical (PRM) Coverage. Employees are eligible to continue participating in a NAF HBP medical plan (HMO or non-HMO) after retirement, if they meet the following three requirements:

SC1408.AP1.4.2.1.1. Are enrolled in the NAF HBP medical plan (either HMO or non-HMO) on the day before retirement.

SC1408.AP1.4.2.1.2. Have 15 years of cumulative participation in any combination of DoD NAF employer medical plans existing before January 1, 2000, and the NAF HBP (both HMO and non-HMO). Participation does not have to be continuous and is not affected by breaks in service. Previous participation in the Federal Employees Health Benefits Program (FEHBP) is credited towards the 15-year participation requirement as follows:

SC1408.AP1.4.2.1.2.1. Continuous participation in the FEHBP as of the day before a move from a DoD appropriated fund position to a DoD NAF position, on or after January 1, 1987, without a break in service of more than 3 days will be credited.

SC1408.AP1.4.2.1.2.2. The requirement for 15 years participation is waived for employees who had 5 years of continuous enrollment in the FEHBP on the day before being involuntarily moved from a DoD appropriated fund position to a DoD NAF position. The move must have occurred on or after January 1, 1987, without a break in service of more than 3 days. (For purposes of this Appendix, an involuntary move occurs when the employee's appropriated fund position is abolished in the appropriated fund employment system and reestablished in the NAF employment system.)

SC1408.AP1.4.2.1.3. Receive an immediate annuity that may be either a monthly annuity check or a lump-sum annuity payment. The annuity may be a NAF retirement plan annuity, or a Civil Service Retirement System (CSRS) or Federal Employees Retirement System (FERS) annuity, provided the employee elected to remain covered by CSRS or FERS as a NAF employee under section 8347(q) of 5 U.S.C. (reference (e)), or section 8461(n) of 5 U.S.C. (reference (f)).

SC1408.AP1.4.2.2. Eligibility for Post-Retirement Coverage in the NAF HBP Dental Plan. Employees are eligible to continue participating in a NAF HBP dental plan after retirement, if they meet the following three requirements:

SC1408.AP1.4.2.2.1. Meet the PRM eligibility requirements in subparagraph SC1408.AP1.4.2.1., above, and elect PRM coverage.

SC1408.AP1.4.2.2.2. Are enrolled in the dental plan associated with their medical plan option (POS, PPO, Indemnity, or HMO) on the day before they retire.

SC1408.AP1.4.2.2.3. Have 15 years of cumulative participation in the dental plan associated with medical plan participation (POS, PPO, Indemnity, or HMO). Previous participation in the FEHBP and in NAF employer dental plans is credited as follows:

SC1408.AP1.4.2.2.3.1. Continuous participation in the FEHBP as of the day before a move from a DoD appropriated fund position to a DoD NAF position, on or after January 1, 1987, without a break in service of more than 3 days, is credited towards the 15-year cumulative participation requirement.

SC1408.AP1.4.2.2.3.2. The requirement for 15 years of cumulative dental plan participation is waived for employees who meet either of the following requirements:

SC1408.AP1.4.2.2.3.2.1. Participated in a NAF employer's dental plan when the NAF employer first offered it prior to January 1, 2000, and have continuously participated in the NAF HBP dental plan (HMO or non-HMO) since it was implemented on January 1, 2000.

SC1408.AP1.4.2.2.3.2.2. Participated in FEHB for 5 continuous years as of the day before being involuntarily moved from a DoD appropriated fund position to a DoD NAF position, on or after January 1, 1987, without a break in service of more than 3 days. (For purposes of this Appendix, an involuntary move occurs when the employee's appropriated fund position is abolished in the appropriated fund employment system and reestablished in the NAF employment system).

SC1408.AP1.4.2.3. Effect of Medicare Coverage. When a retiree or his or her covered dependents are eligible for Medicare, HBP benefits will pay secondary to Medicare. As Medicare does not apply overseas, the appropriate DoD NAF HBP plan of benefits will apply in overseas areas as primary coverage.

SC1408.AP1.4.2.4. Post-Retirement Medical or Dental Coverage Election. If employees do not elect post-retirement coverage when they retire, medical and dental coverage terminates. If a retiree cancels post-retirement coverage for any reason, or fails to pay applicable premiums, the coverage terminates. A retiree may not have post-retirement coverage reinstated or elect to enroll during subsequent Open Enrollment or Plan Selection Periods.

SC1408.AP1.4.3. Dependents. Dependents of enrollees include a spouse, unmarried children (including stepchildren and foster children) under 19 years of age, unmarried children under age 25 who are full-time students and dependent upon the enrollee for support, and children over the maximum age who are fully handicapped. Further details on eligibility criteria for dependents are published in the SPDs.

SC1408.AP1.4.4. Continuation of PRM Eligibility Provisions in Effect on December 31, 1999. Before implementing the NAF HBP on January 1, 2000, each of the six employers applied its own separate PRM eligibility criteria. The criteria were, in some cases, more generous to employees than the PRM criteria stated in subparagraph SC1408.AP1.4.2.1., above. Examples of more generous PRM criteria include eligibility for PRM without requiring receipt of an immediate NAF annuity, and

eligibility for PRM with less than 15 years of participation in the DoD NAF employer medical plan existing before January 1, 2000. An employer's former plan with more generous PRM criteria that was in effect on December 31, 1999, may continue to apply as follows:

SC1408.AP1.4.4.1. Active Employees. The Heads of the DoD Components, or their designees, have discretion whether to continue applying the employer's more generous PRM eligibility criteria to employees who were participating in the employer's health plan on December 31, 1999, and who enrolled in the NAF HBP during the fall 1999 Open Enrollment Period. Heads of Components or designees have discretion to apply the criteria to all of those employees, or only to those within that group who are close, as determined by the DoD Component, to meeting the NAF employer's former plan's PRM eligibility criteria. For example, the DoD Component may choose to apply the DoD NAF employer's former plan's more generous PRM eligibility criteria only to those employees who are within five years of reaching PRM eligibility under the employer's former PRM eligibility criteria. The DoD Component must uniformly apply such determinations to its employees. An employee's eligibility for the employer's more generous PRM eligibility provisions shall be documented in his or her personnel folder.

SC1408.AP1.4.4.2. Individuals Receiving PRM Coverage. An employer's more generous PRM eligibility criteria shall continue to apply to those retirees and former employees receiving PRM coverage on December 31, 1999, who elected, during the fall 1999 NAF HBP Open Enrollment Period, to participate in the NAF HBP. If PRM coverage was not elected, or if the coverage is canceled, it cannot be reinstated or elected during subsequent Open Enrollment Periods.

SC1408.AP1.5. THE HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT OF 1996 (HIPAA)

SC1408.AP1.5.1. Applicability. Sections 102(a) and 262 of HIPAA (reference (g)), apply to NAF health plans. Accordingly, HIPAA provisions regarding the requirement for certification of periods of coverage, special enrollment periods for certain circumstances, and restrictions against basing eligibility or premium contribution rates on health status-related factors are incorporated into this Appendix or the SPDs, as appropriate.

SC1408.AP1.5.2. Certificates of Creditable Coverage. In accordance with HIPAA (reference (g)), individuals who cease to be covered by the NAF HBP will receive certifications of periods of creditable coverage from the TPA. Certificates of

coverage will be provided to members who lose coverage. The certificates will reflect the latest period of continuous coverage under the NAF HBP. NAF employers will ensure that employees receive certifications for periods of creditable coverage under NAF employer plans prior to 2000.

SC1408.AP1.6. ENROLLMENT PERIODS AND COMMUNICATIONS

SC1408.AP1.6.1. Open Enrollment Periods. An Open Enrollment Period, which does not apply to retirees (except for those who are switching medical plans as described in subparagraph SC1408.AP1.6.1.4., below), shall be held biennially. DoD NAF employers may not offer any other Open Enrollment Periods. During an Open Enrollment Period:

SC1408.AP1.6.1.1. Eligible NAF employees who are not participating in the DoD NAF HBP may enroll in either an HMO or non-HMO plan.

SC1408.AP1.6.1.2. Employees who are already enrolled in medical coverage, or who enroll during the Open Enrollment Period, may also enroll in the dental plan.

SC1408.AP1.6.1.3. Employees enrolled in self-only coverage may change to family coverage.

SC1408.AP1.6.1.4. Employees and retirees may switch medical plans the same way they do during a Plan Selection Period, as described in paragraph SC1408.AP1.6.2., below.

SC1408.AP1.6.2. Plan Selection Period. Plan Selection Periods, during which NAF employees and retirees who are already enrolled in the DoD NAF HBP (either HMO or non-HMO plan) may switch medical plans, shall be held annually. Employees and retirees who are not already enrolled in the DoD NAF HBP (either HMO or non-HMO plan) may not enroll during a Plan Selection Period. During a Plan Selection Period:

SC1408.AP1.6.2.1. Eligible employees and retirees may switch from one HMO to another HMO provided in their geographical area, from a non-HMO (POS, PPO, or Indemnity) to an HMO, or from an HMO to a non-HMO.

SC1408.AP1.6.2.2. Eligible employees and retirees who live in areas covered by the Indemnity plan may opt into a nearby managed care network, or reverse an earlier such decision and opt back into the Indemnity plan.

SC1408.AP1.6.3. Enrollment of Active Employees. Eligible employees may enroll in the NAF HBP within 31 days of the initial eligibility date (due to new employment or change in employment category). Employees who do not elect to enroll during this eligibility period may elect to enroll during a subsequent Open Enrollment Period, or a special enrollment period as required by HIPAA (reference (g)). (See paragraph SC1408.AP1.6.5., below.)

SC1408.AP1.6.4. Enrollment of Dependents

SC1408.AP1.6.4.1. Dependents of Active Employees. Eligible employees may enroll in family coverage to cover dependents within 31 days of their initial eligibility date (due to employment or family status change). Failure by the employee to enroll in family coverage within the 31-day eligibility period will require the employee to wait for the next Open Enrollment Period, or a special enrollment period, as defined by HIPAA (reference (g)). If the employee has family coverage, any new dependents (for example by birth, adoption, or placement for adoption) must be enrolled within 31 days of initial eligibility.

SC1408.AP1.6.4.2. Dependents of Retirees. Retirees with self-only coverage will only be permitted to change to family coverage when there is a change in family status (marriage, birth, or adoption) or any other qualifying event covered by HIPAA (reference (g)). Eligible dependents must be enrolled within 31 days of the initial eligibility date.

SC1408.AP1.6.5. Special Enrollment Periods Provided by HIPAA. As required by HIPAA (reference (g)), employees and eligible dependents who declined enrollment because of other health insurance coverage may, if eligibility requirements are met, enroll in the NAF HBP within 31 days of the end of the other health insurance coverage. In accordance with the HIPAA requirement for a dependent special enrollment period, employees not enrolled in the NAF HBP will be permitted to enroll themselves, spouses, and dependents resulting from marriage, birth, adoption, or placement for adoption.

SC1408.AP1.6.6. Communications. While the TPA is responsible for preparing and distributing Open Enrollment Period and Plan Selection Period materials, including SPDs, the NAF employers are responsible for explaining this material to employees and retirees. The NAF employers are also responsible for giving copies of communications materials and enrollment forms to new employees, and for acting as a liaison between employees and the TPA, explaining claims procedures when necessary, and assisting employees with interpretation of NAF HBP coverage.

SC1408.AP1.7. THIRD-PARTY ADMINISTRATOR (TPA) OF POS, PPO, AND INDEMNITY PLANS

SC1408.AP1.7.1. TPA Contract. The Department of the Army is the Office of the Secretary of Defense's Executive Agent for executing official NAF procurement procedures necessary for establishing a proper contract with a TPA and for administering the contract. The Department of Defense accepts the approach set forth at page 313 of the Report of the House Committee on National Security on H.R. 1119 (reference (h)) and the TPA shall comply with DoD Directive 4105.67, "Nonappropriated Fund (NAF) Procurement Policy," (reference (i)), to provide NAF HBP administration services to the Department of Defense. The TPA will not provide an insurance product; the NAF HBP shall be self-funded by the NAF employers as discussed in section SC1408.AP1.9., below.

SC1408.AP1.7.2. TPA Duties. Tasks that shall be accomplished by the TPA include claims administration and payment, information and assistance on premium setting and reserve funding, direct administrative interface with each of the NAF employer's designees to obtain necessary data and funding in accordance with NAF HBP policy, expert consulting on health benefits management matters to OSD and the Benefits Committee, SPD content, publication, and distribution, employee communications, administrative assistance during open enrollment periods, and providing reports necessary to evaluate plan utilization. The TPA will also assist the Department of Defense in meeting HIPAA (reference (g)) or other legal requirements.

SC1408.AP1.7.3. TPA Interface with the Six Major NAF Employers. Each of the six major NAF employers shall:

SC1408.AP1.7.3.1. Deal directly with the TPA to ensure administrative matters affecting its employees are properly executed and in conformance with NAF HBP policy.

SC1408.AP1.7.3.2. Establish with the TPA claims and administrative fee payment account arrangements to ensure timely flow of employer funds for payment of claims and administrative fees.

SC1408.AP1.8. PREMIUMS FOR POS, PPO, INDEMNITY, AND DENTAL PLANS

SC1408.AP1.8.1. Determination of Premium for POS, PPO, Indemnity, and Dental Plans. The Benefits Committee will develop and recommend premium amounts for

each plan year (January 1 to December 31) to the DASD(CPP). The rules for reaching this determination are as follows:

SC1408.AP1.8.1.1. There are two enrollment classes: single and family. Employee and retiree claims will be pooled together within these classes to develop premiums.

SC1408.AP1.8.1.2. Each year before the Open Enrollment or Plan Selection Period, the TPA shall provide to the Benefits Committee the projected total premium amount (to include both employer and employee share) for both single and family medical premiums and single and family dental premiums for the following plan year. The projected total premium will take into account such factors as the past claims experience for all NAF employers, projected rates of inflation, pending legislative change affecting health benefits, and other risk factors that could influence the cost of health benefits coverage. The projected total premium amount will include the cost for baseline TPA administrative costs. Post-retirement medical prefunding costs, employer overhead costs, and costs that exceed baseline TPA administrative expense will not be included in the calculation of the projected total premium amount.

SC1408.AP1.8.2. Employer and Employee Premium Sharing Arrangements for POS, PPO, Indemnity, and Dental Plans

SC1408.AP1.8.2.1. In calendar year 2003 and thereafter, the employer share of the DoD NAF HBP established premium for employees and retirees shall be 70 percent. Employees and retirees shall pay 30 percent.

SC1408.AP1.8.2.2. During plan years 2000, 2001, and 2002, transitional employer premium sharing arrangements are permitted as follows: In calendar year 2000, the employer share was at least 60 percent and did not exceed 80 percent; in calendar years 2001 and 2002, the employer share must be at least 65 percent and may not exceed 75 percent.

SC1408.AP1.8.3. Continuation of PRM Premium Sharing Practices in Effect on December 31, 1999. Before the Department of Defense implemented the NAF HBP on January 1, 2000, the Army and Air Force Exchange Service (AAFES) paid 100 percent of the premium for enrolled retirees regardless of age. Four other major NAF employers paid 100 percent of the premium for a specified period of time for enrolled individuals who met age and service requirements. The Heads of the DoD Components, or their designees, may continue to apply PRM premium sharing practices in effect on December 31, 1999, if they were more generous than those required by paragraph SC1408.AP1.8.2., above. (For example, an employer who previously paid 100 percent

of the PRM premium for retirees ages 62 up to age 65 may continue that practice for that age group, but the provisions of paragraph SC1408.AP1.8.2. would apply to retirees under age 62 and over age 65.) The two groups listed below are eligible for continuation of an employer's more generous PRM premium sharing practice:

SC1408.AP1.8.3.1. Active Employees

SC1408.AP1.8.3.1.1. Heads of the DoD Components or designees have discretion whether to continue to apply a NAF employer's more generous PRM premium sharing provisions to employees who meet the following two requirements:

SC1408.AP1.8.3.1.1.1. Participate in the employer's health plan on December 31, 1999.

SC1408.AP1.8.3.1.1.2. Enroll in the NAF HBP during the fall 1999, Open Enrollment Period.

SC1408.AP1.8.3.1.2. The DoD Components or their designees have discretion to apply the more generous premium sharing provisions to: all employees who meet the subparagraph SC1408.AP1.8.3.1.1. criteria above, or only to those who meet that criteria and who are close, as the DoD Component determines, to meeting the employer's PRM eligibility criteria in effect on December 31, 1999.

SC1408.AP1.8.3.2. Individuals Receiving PRM Coverage on December 31, 1999. Heads of the DoD Components have discretion whether to continue to apply more generous PRM premium sharing provisions to those who meet the following two requirements:

SC1408.AP1.8.3.2.1. Receive PRM coverage through the DoD NAF employer's health plan on December 31, 1999.

SC1408.AP1.8.3.2.2. Enroll in the NAF HBP during the fall 1999 Open Enrollment Period.

SC1408.AP1.9. EMPLOYER FUNDING

SC1408.AP1.9.1. General. The NAF HBP POS, PPO, Indemnity, and dental plans are self-funded by the NAF employers. The TPA for those plans provides claims administration and other services, but does not provide an insurance product. Where health benefits coverage is provided under HMO contracts, the funding arrangement will be an insured product.

SC1408.AP1.9.2. NAF Employer Sharing of Claims and Administration Fees for POS, PPO, and Indemnity Plans. The cost of NAF HBP POS, PPO, Indemnity, and dental claims and monthly administration fees shall be shared among NAF employers.

SC1408.AP1.9.2.1. The percent of total POS, PPO, and Indemnity claims costs, plus vision and dental claims to be paid by a NAF employer is equal to the percent of the total "covered lives" (enrolled employees and retirees, plus their covered dependents) attributable to that employer for those plans.

SC1408.AP1.9.2.2. The percent of the total shared POS, PPO, Indemnity, and dental TPA service fees to be paid by a NAF employer is equal to the percent of the enrollees (employees and retirees, but not dependents) attributable to that employer (because these fees are charged per enrollee without regard to total covered lives). Direct billing fees related to temporary continuation of medical benefits coverage ("COBRA-like" coverage) are the responsibility of the affected NAF employer and are not shared among all of the NAF employers.

SC1408.AP1.9.2.3. During the plan year, NAF employers will pay the actual claims cost attributable to their respective enrollees. Therefore, financial reconciliation among NAF employers is necessary to accomplish cost sharing per subparagraphs SC1408.AP1.9.2.1. and SC1408.AP1.9.2.2., above. Annually, NAF employers shall pay each other consistent with cost sharing reconciliation instructions issued by the DoD NAF Personnel Policy Office. NAF employers shall pay the total amount required within 30 calendar days of the issue date of the instructions. Payments will be made via Electronic Fund Transfer. NAF employers will obtain the required Automated Clearing House set-up information (e.g., bank routing number, account number, check/savings) from one another to effect payment. Payments shall be made without regard to any other unsettled accounts between payers and payees, except when affected employers mutually agree to a settlement that includes other accounts.

SC1408.AP1.9.2.4. The TPA will provide quarterly reports, covering the plan year, to each NAF employer and the DoD NAF Personnel Policy Office. NAF employers are responsible for identifying and reporting any report errors to the DoD NAF Personnel Policy Office and to the TPA.

SC1408.AP1.9.2.4.1. Quarterly Cost Sharing Reconciliation Report for Claims. This report will indicate by employer the total claims cost for the quarter and year-to-date. It will also indicate the total number of covered lives for each employer. The cost sharing reconciliation will be based on the year-to-date average of covered lives for each month.

SC1408.AP1.9.2.4.2. Quarterly Cost Sharing Reconciliation Report for Shared Fees. This report will indicate by employer the total shared fees for the quarter and year-to-date. It will also indicate the total number of enrollees for each employer. The cost sharing reconciliation will be based on the year-to-date average of enrollees for each month.

SC1408.AP1.9.2.5. Each February, the DoD NAF Personnel Policy Office will provide proposed cost sharing instructions to the NAF employers. The proposed instructions will cover the recently completed plan year and be based on the quarterly reports and the cost sharing policy in paragraph SC1408.AP1.9.2., above. The proposed instructions will designate payers, payees, and reconciliation amounts owed. After receipt of NAF employer comments, the instructions will be revised, as appropriate, before issuance.

SC1408.AP1.9.3. PRM Liability. Pre-funding of PRM liability is encouraged, but not required. Each NAF employer shall annually determine and record the amount of its unfunded PRM liability in accordance with Financial Accounting Standard (FAS) 106 (reference (j)).

SC1408.AP1.10. LEAVE-WITHOUT-PAY (LWOP)

During a period of approved leave-without-pay, an employee may elect to continue coverage under the NAF HBP, provided the employee continues to make the required employee contribution. The employer will continue to pay the employer's share of the premium. Such coverage cannot be continued beyond 12 months from the date the LWOP began, except in the case of authorized LWOP for military service or in other circumstances considered appropriate by the applicable Head of the DoD Component or designee.

SC1408.AP1.11. MILITARY SERVICE

The Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA), Sections 4301-4333 of Chapter 43, title 38, United States Code (reference

(k)), covers NAF employees who leave their employment to perform duty with the Uniformed Services. Employees who are on LWOP while performing military duty may elect to continue to participate in the NAF Health Benefits Program (HBP) for up to 18 months. In accordance with USERRA (reference (k)), employees who elect not to continue NAF HBP coverage while on military duty are entitled to be reinstated to NAF HBP coverage when they return to NAF employment, without waiting for an Open Enrollment Period.

SC1408.AP1.12. FAMILY AND MEDICAL LEAVE ACT (FMLA)

NAF employees are covered by the Family and Medical Leave Act (reference (l)). Under the Act, eligible employees are entitled to a total of 12 administrative workweeks of unpaid leave during any 12-month period for specified family and medical needs. During approved periods of FMLA leave, employees who are enrolled in the NAF HBP (HMO or non-HMO) may continue health insurance coverage (medical and dental). Employee and employer contributions shall be made in accordance with section SC1408.AP1.10., above. Employees who do not continue NAF HBP coverage while on FMLA leave are, in accordance with the FMLA (reference (l)), entitled to be reinstated to NAF HBP coverage under the same terms as prior to taking the leave.

SC1408.AP1.13. MOVEMENT OF NAF EMPLOYEES TO DoD APF POSITIONS

An enrolled NAF employee who moves to a DoD appropriated fund position without a break in service of more than 3 days shall have NAF medical and dental benefits, if applicable, extended without charge to the employee for 31 days, or until the employee becomes covered by FEHB, whichever comes first.

SC1408.AP1.14. COORDINATION OF BENEFITS (COB)

The amount of benefits payable under the NAF HBP shall take into account any coverage a family member has under other group plans. The SPDs provide details regarding how benefits are coordinated.

SC1408.AP1.14.1. Active Employees. Benefits will be coordinated to ensure that the DoD NAF HBP reimbursement to active employees takes into account payments made by other group plans. Under this approach, active employees will not receive a total benefit greater than that provided under the NAF HBP plan.

SC1408.AP1.14.2. Retirees. When retirees or their dependents become eligible for Medicare, medical benefits from the NAF HBP will be offset by Medicare payments through the Government Exclusion approach to Coordination of Benefits.

SC1408.AP1.15. TEMPORARY CONTINUATION OF COVERAGE (TCC)

Plan participants who become ineligible to participate in the NAF HBP for any reason, other than termination for cause, are eligible for the temporary continuation provision applicable to their non-HMO or HMO plan of benefits.

SC1408.AP1.15.1. Non-HMO Medical Plans. Employees, retirees, and dependents enrolled in the NAF HBP POS, PPO, and Indemnity plans who become ineligible to participate in the NAF HBP shall be offered the opportunity to enroll in TCC.

SC1408.AP1.15.1.1. General Eligibility Requirements. The SPDs provide detailed requirements, definitions, and TCC application procedures. The following participants are eligible for TCC:

SC1408.AP1.15.1.1.1. Employees. NAF employees who:

SC1408.AP1.15.1.1.1.1. Have been enrolled in the NAF HBP for at least 90 days prior to the date of non-eligibility; and

SC1408.AP1.15.1.1.1.2. Who lose coverage for any reason other than termination for gross misconduct.

SC1408.AP1.15.1.1.2. Retirees. Employees who retire without obtaining eligibility for PRM.

SC1408.AP1.15.1.1.3. Dependents. Dependents who either lose NAF HBP coverage because the sponsoring employee or retiree loses coverage, or who become otherwise ineligible to participate. (See special continuation of coverage provisions for surviving dependents in section SC1408.AP1.16., below.)

SC1408.AP1.15.1.2. Cost and Length of TCC Coverage

SC1408.AP1.15.1.2.1. General. Participants in the POS, PPO, and Indemnity medical plans shall be offered temporary continuation of coverage for up to 18 months from the date eligibility ceases. The participant will pay the full cost of the

premium for medical coverage, plus an administrative fee of two percent of the premium. TCC coverage terminates before the end of the 18-month period if the participant becomes eligible for Medicare or other health benefits coverage.

SC1408.AP1.15.1.2.2. Disabled Employees. Employees who are totally disabled shall be eligible for temporary continuation of medical coverage (single or family coverage as applicable) for up to 36 months from the date medical plan coverage ends. The TCC (including coverage for enrolled dependents) ends before 36 months if the participant ceases to be totally disabled, or becomes eligible for Medicare or other health benefits coverage. Definitions of "total" disability and procedures for providing proof of disability are described in the SPDs.

SC1408.AP1.15.1.2.2.1. Disabled Employees with less than 5 Cumulative Years of Enrollment. Employees who have been enrolled in the NAF HBP (both HMO and non-HMO plans) for less than 5 cumulative years pay the full cost of the premium for medical coverage, plus an administrative fee of two percent of the premium.

SC1408.AP1.15.1.2.2.2. Disabled Employees with 5 or more Cumulative Years of Enrollment

SC1408.AP1.15.1.2.2.2.1. Up to 12 Months of Employer-Paid Premiums. Employees who have participated in the NAF HBP (HMO and non-HMO plans) for 5 or more cumulative years (including enrollment in a NAF Component health plan or in the FEHBP if the employee moved from a DoD appropriated fund position to a DoD NAF position, after January 1, 1987, without a break in service of more than 3 days) shall be covered under the medical health benefits provisions without a charge for premiums (single or family coverage as applicable) for up to 12 months. This provision does not apply to disabled employees who retire with PRM coverage; however, employers may choose to pay up to 12 months of premiums for disabled PRM recipients in individual cases where unusual circumstances exist.

SC1408.AP1.15.1.2.2.2.2. Additional 24 Months of TCC Coverage. After the 12-month period, the participant pays the full cost of the premium for medical coverage, plus an administrative fee of two percent of the premium for the remaining 24 months or until he or she becomes ineligible through one of the events described in subparagraph SC1408.AP1.15.1.2.2., above.

SC1408.AP1.15.2. NAF HBP Dental Coverage. TCC is not permitted for dental benefits.

SC1408.AP1.15.3. HMO Participants. Employees, retirees, and dependents enrolled in an HMO who become ineligible to participate will be offered the HMO's continuation of coverage. HMOs and servicing Human Resources Offices must provide participants with information on the HMO's applicable temporary continuation of coverage. This coverage may be of different length and coverage than that provided under the POS, PPO and Indemnity plans.

SC1408.AP1.15.4. Base Realignment and Closure (BRAC) Situations. Consistent with Subchapter 1417, subsection 3.11, of this Manual, in situations where an employee has been separated from NAF employment because of BRAC, the employer may pay the employer's share of the premium (HMO or non-HMO) and applicable administrative fees for the employee for up to 18 months. The employer may pay with BRAC or NAF funds. To be eligible, the employee must meet the following two conditions:

SC1408.AP1.15.4.1. Separate by Business Based Action (BBA), resign, or retire (if not meeting the requirements to continue benefits into retirement) after receiving a BBA separation notice.

SC1408.AP1.15.4.2. Enroll in the NAF HBP for at least 6 months and be enrolled at the time of separation by BBA.

SC1408.AP1.16. COVERAGE FOR SURVIVING DEPENDENTS

The surviving dependents of employees and retirees are eligible to continue NAF HBP coverage under the provisions below. NAF HBP participation requirements include HMO and non-HMO participation and enrollment in a NAF employer health plan or in the FEHBP, if the employee moved from a DoD appropriated fund position to a DoD NAF position, after January 1, 1987, without a break in service of more than 3 days.

SC1408.AP1.16.1. Eligibility

SC1408.AP1.16.1.1. General. To be eligible for continuation of coverage, survivors must have been enrolled in the medical (and dental, if applicable) plan as dependents on the day of the employee's or retiree's death and the employee must have had a minimum of 90 days of participation in a NAF HBP plan (HMO or non-HMO). Dependents include children conceived before, and born after, the employee or retiree dies. If the surviving spouse remarries, the new spouse and any dependents acquired upon remarriage are not eligible to enroll in the NAF HBP.

SC1408.AP1.16.1.2. HMO Participants. To be eligible for continuation of coverage under the DoD NAF HBP policy for surviving dependents, survivors who are enrolled in HMOs at the time of the employee's or retiree's death must enroll in the non-HMO plan covering their geographic area.

SC1408.AP1.16.1.3. Survivors of TCC Participants. Surviving dependents of TCC participants are ineligible for continuation of coverage beyond the maximum length of coverage provided by section SC1408.AP1.15., above. The TCC participant's death does not trigger an additional period of coverage.

SC1408.AP1.16.2. Cost and Length of Coverage. The NAF employer will pay 100 percent of the medical (and dental, if applicable) premium for eligible survivors for the first 4 months of health benefit coverage following the employee's or retiree's death. Following this 4-month period of coverage, survivors are eligible to continue coverage as follows:

SC1408.AP1.16.2.1. Survivors of Employees with less than 15 Years of Cumulative Participation in the NAF HBP, or who were not Participating in Retirement Plan. If at the time of death, the employee:

SC1408.AP1.16.2.1.1. Had less than 15 years of cumulative participation in the NAF HBP medical plan; or

SC1408.AP1.16.2.1.2. Was not participating in an applicable defined benefit retirement plan, the employee's covered surviving dependents are eligible for TCC in the non-HMO NAF HBP plan. The temporary coverage shall be for a period of up to 32 months after the 4 months of initial employer-paid premiums. The survivor will be required to pay for this additional 32 months of coverage at the full cost of the total (employer and employee share) medical premium, plus an administrative fee of two percent of the total premium. Dental coverage is not available in the NAF HBP TCC plan.

SC1408.AP1.16.2.2. Survivors of Employees who are Ineligible for PRM at Time of Death, but who have 15 or more Years of Cumulative Participation in the NAF HBP and were Participating in Retirement Plan. If at the time of death an employee:

SC1408.AP1.16.2.2.1. Meets the requirement for 15 years of cumulative participation in the NAF HBP medical plan; and

SC1408.AP1.16.2.2.2. Is participating in an applicable defined benefit retirement plan, the employee's covered surviving dependents may continue medical

coverage. If the employee also participated for 15 cumulative years in a NAF HBP dental plan (HMO or non-HMO), survivors may continue dental coverage as well. Following the 4 months of employer-paid coverage, survivors will pay the same premium rate as active employees. Coverage for the surviving spouse continues indefinitely, regardless of remarriage. Coverage for dependent children continues until the child no longer meets the eligibility criteria in paragraph SC1408.AP1.4.3.

SC1408.AP1.16.2.3. Survivors of Enrollees Eligible for PRM. If the deceased enrollee was receiving, or was eligible to receive, PRM coverage, the same medical and dental coverage and eligibility will apply to covered dependents. This includes any continuation of applicable PRM eligibility provisions and premium-sharing practices described in paragraphs SC1408.AP1.4.4. and SC1408.AP1.8.3., above.

SC1408.AP1.17. CONVERSION OF MEDICAL BENEFITS COVERAGE

Employees, retirees, and enrolled dependents whose coverage under the Department of Defense ceases may convert to a personal medical policy offered by the NAF HBP non-HMO Third-Party Administrator without medical exam. The personal policy will take effect on the day after health benefits coverage ceases, including coverage under TCC, if applicable. The SPDs provide detailed policy application requirements.

E1. ENCLOSURE 1

REFERENCES, continued

- (e) Section 8347(q) of title 5, United States Code
- (f) Section 8461(n) of title 5, United States Code
- (g) Public Law 104-191, "Health Insurance Portability and Accountability Act (HIPAA) of 1996, August 21, 1996
- (h) Report of the House Committee on National Security on H.R. 1119, H.R. Rep. No. 132, 105th Cong., 1st Sess. at 313 (1997)
- (i) [DoD Directive 4105.67](#), "Nonappropriated Fund (NAF) Procurement Policy," May 2, 2001
- (j) Financial Accounting Standard (FAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," December 1990, Financial Accounting Standards Board ¹
- (k) Public Law 103-353, "Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA)," October 13, 1994, Sections 4301-4333 of Chapter 43 of title 38, United States Code
- (l) Public Law 103-3, "Family and Medical Leave Act of 1993 (FMLA)," February 5, 1993

¹ FASB accounting standards are available at most business and law libraries, as well as through the Financial Accounting Standards Board (FASB). Financial Accounting standards may be ordered at the FASB website at www.fasb.org or by calling (800) 748-0659. Each NAF employers' accounting office or actuarial staff may also have a copy of FAS 106.